

# BUDGET LETTER

<b>SUBJECT:</b> 2009-10 BUDGET POLICY	<b>NUMBER:</b> 08-23
<b>REFERENCES:</b> BL 08-07	<b>DATE ISSUED:</b> September 30, 2008
	<b>SUPERSEDES:</b> BL 07-21

TO: Agency Secretaries  
Department Directors  
Department Chief Counsels  
Department Budget Officers  
Department Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) sets forth the Governor's policy direction for his proposed 2009-10 Budget. As a reminder, BL 08-07, issued April 10, 2008, outlines the technical and procedural requirements for preparation of the 2009-10 Governor's Budget.

## **2009-10 No Growth Goal for Statewide General Fund Budget**

Since Governor Schwarzenegger took office in November of 2003, he has proposed numerous measures to reduce the imbalance between revenues and expenditures in order to shrink the state's structural deficit. After a lengthy and difficult budget enactment process, some reforms have been achieved. However, the imbalance between resources and expenditures will continue in 2009-10.

As a result, the Governor is committed to a statewide no-growth General Fund budget for 2009-10. Therefore, only the most essential, mission-critical General Fund Budget Change Proposals (BCPs) will be considered. Any submitted requests determined by Finance to be non-mission-critical will be returned without review or denied. Additionally, mission-critical requests must be fully offset by other General Fund reductions within the agency.

To achieve the objective of a no-growth budget for 2009-10, General Fund spending for that year will be limited to the same amount of General Fund appropriated for 2008-09 when the budget was enacted. This no-growth limit will be applied individually to each agency. Agencies should work with their Finance Program Budget Manager to estimate their 2009-10 workload budget pursuant to the definition of workload budget in Government Code §13308.05. However, if it is necessary to implement mid-year reductions pursuant to newly enacted Government Code §13312, additional instructions will be provided to agencies and departments to determine the workload budget.

After determining the workload budget, agencies are required to submit proposals to Finance to eliminate or scale back programs to offset any net growth in their workload budget amount compared to their 2008-09 authorized spending level. The 2008-09 authorized spending level is the amount authorized when the budget was enacted.

At the agency secretary's discretion, individual department budgets may be allowed to have growth above their 2008-09 authorized spending level, however, the agency-wide total for General Fund expenditures for 2009-10 must not exceed the agency-wide total authorized General Fund spending level for 2008-09.

Departments within the Administration not reporting to an agency must follow this same process, with their 2009-10 proposed General Fund budget limited to the 2008-09 authorized spending level. Agencies and departments will be afforded substantial latitude in proposing funding redirections as a means of developing their no-growth funding proposals to accommodate their priorities.

It is possible that for some agencies it will not be feasible to limit growth to the 2008-09 spending level. In these cases, it may be necessary to request further reduction proposals from other agencies in order to achieve no growth in statewide General Fund spending for 2009-10.

Specific deadlines and more detailed process instructions for submitting no-growth budget proposals will be provided later.

Non-General Fund BCPs and spending levels are not subject to no-growth instructions for General Fund expenditures. However, non-General Fund BCPs and spending levels must be sustainable within the existing revenue structure of the fund source that supports the proposal. An exception might be considered if a revenue enhancement is a fee increase and that fee increase is supported by the affected industry or fee payers. To the extent a non-General Fund BCP directly or indirectly results in a negative impact to the General Fund, that BCP will be considered a General Fund BCP.

### **Proposed Statutory Changes**

Pursuant to Government Code §13308, Finance must provide to the Legislature on or before February 1 of each year, all proposed statutory changes, as prepared by the Legislative Counsel, necessary to implement the Governor's Budget. Therefore, all BCPs requiring statutory changes must also include a copy of the proposed legislation, approved through the normal proposed legislation process. Finance will submit any approved language to the Legislative Counsel.

### **Comprehensive Budget Development Process**

The Government Code and the pending Budget Act require the Governor's Budget development process to be as comprehensive as possible, and any subsequent adjustments may only be made to meet critical and unanticipated needs. Further, the January Budget is to include all policy proposals made for the ensuing fiscal year. Spring Finance Letters, due to the Legislature no later than April 1, are discouraged and should be used only for: (a) updating those proposals made in January, or (b) submitting any new critical proposals that cannot be delayed until the upcoming fall budget process without serious consequences. The need to submit as a Spring Finance Letter must be fully justified. The May Revision changes to the Governor's Budget are due to the Legislature no later than May 14 and will encompass only traditional enrollment, caseload, and population adjustments and any necessary budget balancing proposals. Policy proposals are discouraged for May submission.

### **Budget Change Proposal Form**

Departments are reminded the Budget Change Proposal (BCP) form has a section for the date the BCP is submitted to the Legislature with space for a Finance supervisor's signature to attest to that submission. The purpose of this information is to improve the tracking of the "final" version of a department's BCP. This "final" version of a BCP is the only version to be made public unless disclosure is approved by the Governor's Office or made pursuant to a court order. Information contained in BCPs is an integral part of the Governor's Budget deliberation process. As such, a BCP is treated as a privileged and confidential working paper subject to the Governor's deliberative process privilege until the BCP reflects the Governor's final decision to include the BCP as part of his budget proposal to the Legislature. Disapproved BCPs and unapproved versions of BCPs (i.e., those not released to the Legislature) are working papers subject to the Governor's privilege, and are not to be released except when the privilege is waived by the Governor's Office or pursuant to a court order. Questions about requests for confidential budget documents under the Public Records Act or litigation discovery requests seeking confidential budget documents should be directed to department legal staff, and, if necessary, by department legal staff to Finance legal staff.

Departments must use the latest form for submittal of BCPs with the 2009-10 Governor's Budget. The BCP form can be found on the Finance public website: <http://www.dof.ca.gov/Budgeting/Forms>

If you have any questions, please contact your Finance budget analyst.

/s/ Michael C. Genest

MICHAEL C. GENEST  
Director